



Senator Charles J. Colgan, Chair
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Review of Retirement Benefits for State and Local Government Employees

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BACKGROUND

The Virginia Retirement System (VRS) provides retirement benefits through a defined benefit retirement plan to approximately 600,000 active state and local employees, retirees, and beneficiaries. A 2008 JLARC study found that these benefits are a key component of the state's compensation package that contributes to the state's competitiveness as an employer. Since 2008, the General Assembly has modified the benefits and cost-sharing structure for the defined benefit retirement plans for state employees and school division employees, such as school teachers. Following the 2011 General Assembly Session, the JLARC Chair requested staff to review the structure and effectiveness of the retirement plans in order to provide additional information before further significant changes were considered. Staff also evaluated several options for modifying the existing plans or offering employees an alternative type of plan.

KEY FINDINGS

- Public employee retirement benefits through VRS are effective at helping state and local governments recruit and retain qualified employees. Current benefits allow employees to retire at an appropriate time and with adequate income, when paired with other resources.
- The state's total compensation package is marginally competitive when compared to peer employers, due largely to relatively low cash compensation for employees, and its competitiveness has declined since 2008. The state's ability to remain competitive is due partially to the defined benefit retirement plans.
- Virginia's overall prudent management of the retirement system, particularly with respect to plan design, has made its fiscal challenges less severe than is the case in many other states. However, employer contributions for several years have been lower than necessary to fully fund the plans' costs. Continuing to contribute less than is recommended will add to the plans' existing unfunded liabilities (\$19.9 billion in fiscal year 2011) and require higher contribution amounts in the future.
- An alternative retirement plan could be provided that is competitive and that could allow many employees to accrue sufficient savings. Either a defined contribution or a combination retirement plan would have advantages, depending on the state's objectives. Neither is projected to produce substantial cost savings over the next ten years, however, and could result in higher costs.

SUMMARY OF RECOMMENDATIONS

- If either a defined contribution or a combination plan is provided as an alternative retirement plan, several key components should be incorporated. For example, the alternative retirement plan should be optional for existing and future employees and should include a comprehensive and ongoing education component.
- If changes to the defined benefit retirement plans are desired, certain options should be considered, such as an increase in the number of months of salary on which future retirees' benefits are based. Other options are not recommended for consideration at this time, such as an increase in required employee contributions.
- A fiscal impact analysis should be done in any year that the funded rates for the defined benefit plans are less than those recommended by the VRS actuary, and a minimum acceptable funded ratio should be identified for each of the plans. In addition, employees and employers should be required to share any costs incurred because of any future changes to the benefit provisions.